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Home-owners and poverty in Northern Ireland

This briefing draws out the key findings for Northern Ireland of a wider study looking at the circumstances, living conditions and finances of contemporary home-owners who experience poverty or have inadequate incomes. It is based on data drawn from the 2013/14 Understanding Society survey.

JRF Policy and Research – Brian Robson, acting Head of Policy and Research

Key Finding

The uncertain economic context for Northern Ireland means the issue of unsustainable home-ownership is not over. Although the local housing market and economy have risen further since these data were collected, the legacy of the financial crisis will still take some time to shift.

Conclusions

- Policymakers in Northern Ireland should examine the targeting of mortgage safety nets and the potential impacts of converting SMI to an equity loan. This is because increased borrowing to remedy mortgage debt may be risky over long periods, not least in the context of lower levels of housing equity. Therefore, from April 2018 claims for SMI should automatically trigger independent housing and debt advice.
- The region should also support smooth exits from the tenure – through mortgage rescue or assisted voluntary sales depending on vulnerability – if demonstrably unsustainable.
- To help home-owners manage their circumstances themselves, policymakers should work with lenders to support the porting of mortgages.
- They should also consider mechanisms to facilitate loan modifications for struggling but sustainable borrowers.

The research

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FEBRUARY 2018

Background

The impact of the financial crisis has cast a long shadow over Northern Ireland's home-owners, with house prices that remain 41% below those in 2007. Northern Ireland has the highest rates of negative equity and mortgage arrears and possessions across the UK. This combined with a slow economic recovery, and uncertainty relating to the EU and Brexit, means the pressures on low-income home-owners are unlikely to dissipate soon. Northern Ireland has the highest rate of poverty among home-owners, whether they be mortgaged or outright owners, compared to other areas of the UK. This Findings focuses upon the circumstances of home-owners and those in poverty in Northern Ireland, considering who they are and their finances.

Key points

- Northern Ireland has a greater proportion of home-owners in poverty than the rest of the UK.
- There are 22% of outright owners and 11% of mortgaged households in poverty before housing costs (BHC).
- Twice as many of Northern Ireland's mortgaged households are behind with their mortgage repayments (14%) compared to the whole of the UK (7%). Across the UK, the lowest income bands are almost twice as likely again to be behind with their mortgage payments, suggesting around a quarter of mortgaged households in poverty are in mortgage arrears in Northern Ireland.
- Northern Ireland's households with mortgages had more than three times the incidence of negative equity (11%) than those across the UK (3%). The value of their loans exceeded the value of their homes by an average of £35,293, although indications were that this was more prevalent among professional home-owners than those in poverty.
- Estimates of mortgage interest rates indicate that Northern Ireland households with interest-only mortgages pay more for their loans than other areas of the UK. This suggests a higher rate of borrowers overpaying their loans or, more likely, reflects the greater numbers of 'mortgage prisoners' in the region – people unable to switch to lenders' better deals.
- Working households form the majority of households struggling with mortgage debt and thus are unable to claim any help with housing costs. The current UK safety net is therefore mis-targeted. In addition, as people wait 39 weeks before payment, it is not provided when needed.
- Local policymakers should develop processes that give a smooth exit from home-ownership when it has become unsustainable. These should include mortgage rescue or assisted voluntary sales, depending on household circumstances.

Extent of poverty among Northern Ireland's home-owners

Northern Ireland has the highest rates of poverty among home-owners across the UK. This includes a total of 22% of outright owners and 11% of mortgaged households in poverty BHC. It includes 14% of outright owners and 17% of mortgaged households in poverty after housing costs (AHC) and, although not in poverty, 34% of mortgaged households had inadequate incomes as indicated by being below the Minimum Income Standard (MIS). In contrast, Scotland has only 15% of outright owners in poverty BHC, 7% of mortgaged households in poverty AHC and 23% of mortgaged households with incomes below MIS.

Who are Northern Ireland's home-owners in poverty?

Across the UK, home-owners with an increased risk of being in poverty included households who were in semi-routine or routine employment, were self-employed, had a minority ethnic background, were young, single, a lone parent, overcrowded, or had experienced relationship breakdown. Many of these indicators in Northern Ireland were similar or below those observed across the UK as a whole. However, the key drivers of the higher poverty rate in the region were a greater proportion of self-employed home-owners, fewer home-owners in professional occupations and at that time a higher rate of unemployment.

Outright owners in poverty tended to be people who were retired (70% BHC, 66% AHC) but by far the largest proportions of mortgaged households in poverty or with inadequate incomes were people of working age (61% BHC, 69% AHC, 81% below MIS). Northern Ireland had the second lowest rates of home-owners in professional occupations (44% compared to 56% in London) and the third highest rates of home-owner households led by someone in self-employment (13% compared to 8% in Scotland). The proportion of homeowners led by someone in routine employment was similar to other regions (21%) but much higher than London (12%). Self-employed home-owners and those in semi-routine or routine employment were over-represented among home-owners in poverty or on inadequate incomes. However, while working households dominated home-owners in poverty in Northern Ireland, the region also had the highest rate of unemployment among home-owners (2% compared to 1% in Scotland). Moreover, despite Northern Ireland's home-owners being marginally younger than many across the UK, the area has the highest proportion of home-owners with poor health (24% compared to 16% in London) and conversely the lowest proportion with excellent health (48% compared to 56% in Scotland).

Housing conditions are measured differently in England and Northern Ireland. Fewer homes fail the decent homes fitness standard in Northern Ireland as it has a lower threshold than the Housing Health and Safety Ratings System adopted in England. Previous analysis of the Northern Ireland House Condition Survey 2009 showed older people in home-ownership formed the largest group of people in non-decent housing, although proportionately private rented homes had poorer conditions. The cost estimates of repairs required to bring older people's homes up to the decent homes standard in England were an average of £6,800, or £8,800 for outright owners in poverty BHC. Assuming similar standards are desired as in England, and that these sums could be replicated in Northern Ireland, then remediation costs for older home-owners' properties still represent a fraction of housing equity available to outright owners, even in Northern Ireland.

Financing home-ownership in Northern Ireland

Housing costs were lower in Northern Ireland but cost burdens were borne more by mortgaged households rather than by private tenants, as is the case in high-pressured regions of the UK. Northern Ireland had the third highest rate of mortgaged households paying over 25% of their net income on housing costs among all regions of the UK (30%), with only London and the south of England paying more. Northern Ireland also had the fourth highest rate of mortgaged households paying over 35% of net income on housing (11.3%) and the third highest paying over 45% (6.3%).

Northern Ireland's home-owners held the lowest median sums of housing equity in the UK (£66,000 for mortgaged households and £120,000 for outright owners). Home-owners in poverty held even less, as outright owners in poverty BHC held £92,000 and mortgaged households in poverty BHC held £40,600. However, outright owners in poverty BHC in London and the south of England held significantly more housing equity than outright owners not in poverty in Northern Ireland (£280,000 and £195,000 respectively compared to £120,000 in Northern Ireland).

Over three times more Northern Ireland mortgaged households were in negative equity (11%) compared to the rate seen across the rest of the UK (3%). The mean average value of that negative equity was £35,293. There were indications that this was held more by those in professional occupations and not those households in poverty, but there were too few cases to produce a significant result. Nonetheless, this accords with earlier analysis where higher income households comprised the greatest proportions of mortgaged households in negative equity, although the magnitude of negative equity was much higher for the lowest income households with mortgages (£72,000) (Wallace et al, 2014).

Estimated mortgage interest rates for interest-only loans were higher among Northern Ireland's home-owners than across the UK, with estimates of 3.7% for repayment loans and 5.2% for interest-only loans in Northern Ireland, compared to 3.9% and 4.2% across the UK respectively. Previous work indicated that NI homeowners used interest-only less frequently than UK homeowners but those in poverty were unable to switch to repayment loans after the financial crisis to the same degree as home-owners, not in poverty. The higher rate among NI interest-only borrowers may indicate they are overpaying their loans more frequently or have more fixed deals but, more plausibly, is likely to reflect the incidence of what has been dubbed 'mortgage prisoners'. These are borrowers unable to switch mortgage products due to negative equity and/or no longer qualifying for a loan under new mortgage regulation.

Northern Ireland's households with mortgages were twice as likely to be behind on their loan repayments (14%) than borrowers were across the UK (7%). Across the UK, those in the lowest income decile were twice as likely again to be in mortgage arrears compared to those in the top decile. In Northern Ireland, small numbers limit analysis but the data indicates that up to 25% of mortgaged households in poverty were behind on their mortgage payments and 18% of those households had incomes below MIS. Possessions as a proportion of all mortgaged households have fallen steadily in the UK but remain much higher in Northern Ireland than England and Wales.

With lower housing costs, the impact of a one-percentage point increase in bank base rates – all other things being equal – appears to be milder in Northern Ireland than across the UK. The proportion of people with mortgages paying over 25% of their net income on housing costs would rise from 30% to 33% in Northern Ireland but from 32% to 51% across the UK. The proportion paying over 35% would increase from 11% to 14%, compared to an increase from 13% to 19% across the UK. These changes could be tempered by the incremental implementation of rate rises and by people having fixed their interest rates. Nonetheless, high housing costs are associated with mortgage arrears and in the fragile context of Northern Ireland borrowers already struggling with their loans, the actual impact would be more profound. The one-point base rate rise would increase poverty among home-owners by one-point across the UK. However, it could have a greater impact in Northern Ireland as there are more mortgaged households at risk of entering poverty.

As in the UK, most people with mortgages struggling with the payments were in work. This – along with now waiting 39 weeks prior to payment of the key mortgage benefit Support for Mortgage Interest (SMI) – challenges the efficacy of the current system of mortgage safety nets, where there is no in-work eligibility. Support bypasses most mortgaged households that require help and fails to provide support when most required.

About the project

This study uses five waves of Understanding Society and the British Household Panel Survey between 1993/4 and 2013/14. The analysis was supported by a literature review and in-depth interviews with policy and industry stakeholders.

For further information

The full report, **Home-owners and poverty in Northern Ireland** by Alison Wallace, David Rhodes and Firona Roth is published by the Joseph Rowntree Foundation. It is available as a free pdf from www.jrf.org.uk

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